

NEEDS ASSESSMENT FOR SYRIAN SMEs

RESEARCH ON KNOWLEDGE AND BARRIERS
AMONG SYRIAN ENTREPRENEURS IN TURKEY



Contents

1. Executive Summary	2
2. Understanding the Business Environment for Syrians in Turkey.....	4
3. Study rationale and objectives.....	6
4. Methodology.....	6
Data Collection Method.....	6
Target Population.....	6
Questionnaire Design	6
Study Implementation.....	7
Data Analysis.....	7
Study Limitations.....	7
5. Findings and Results	9
Section 1 Business Profile	9
Section 2 Financial Inclusion	11
Section 3 Future Expectations	11
Section 4 Main Growth Opportunities.....	12
6. Conclusions	13

1. Executive Summary

Needs Assessment For Syrian SMEs offers an evaluation of the opportunities and problems faced by Syrian-owned micro-, small- and medium-sized enterprises registered in Turkey. This report highlights both the challenges and opportunities associated with doing business in Turkey along with findings that can potentially inform policies and projects for better utilizing the power of Syrian SMEs for the benefit of Turkish economy. Better economic integration of Syrians into Turkish economy undoubtedly has the potential to mitigate the effects of the refugee crisis as well.

Syria has been going through one of the most severe humanitarian crises of modern times. Since the beginning of hostilities in 2011, the death toll from the country-wide conflict has reached an estimated 400,000 lives¹ apart from displacing approximately six million Syrians internally² and forcing around five million Syrians³ to flee their homeland for taking refuge in neighboring countries.

Such long-term displacement of such high numbers of people gave way to various new challenges for host countries as well. Turkey currently is home to at least three and a half million refugees⁴. Overburdened social services, infrastructure and job markets all add to Turkey's challenges in responding to the nearby conflict.

Entrepreneurship and job creation are vital in overcoming the obstacles Turkey now faces in the aftermath of large-scale displacement. Syrians have been getting more and more active in setting up enterprises in Turkey. These entities contribute to job creation for other Syrians and members of the host community in Turkey as well generating livelihoods for the entrepreneurs themselves. It's also worth noting that *not* all Syrian business-owners in Turkey are first-time entrepreneurs; some are seasoned businesspeople who have brought to Turkey their expertise and capital.

Unemployment, unregistered employment and lack of social security are among the long-standing economic problems that refugees in Turkey have to cope with. Growth of Syrian businesses has the side effect of reducing the effects of such economic problems. It is therefore essential to understand the most critical obstacles these business-owners have to deal with. This understanding is conducive to the development of more effective solutions and programmes for better integration of Syrians into the Turkish economy. Such solutions may also benefit long-term reconstruction and re-development of Syria.

INGEV has conducted this research project in order to better understand the opportunities that Syrian Enterprises have in order to grow their businesses. Over the years since the beginning of the Syrian Conflict, various research projects followed the same line of inquiry. They have mainly indicated that several barriers exist, such as lack of clear-cut and easy-to-understand information sources on company registration, tax laws and labor laws; lack of sufficient opportunities for learning Turkish; insufficient sources of information in Arabic; complicated bureaucratic rules related to domestic and international travel by Syrian entrepreneurs; inadequate access to banking services and money transfers; insufficient duration of work permits; cumbersome import-export controls on goods from Syria; strict laws on Syrian worker quotas.

INGEV's current research seeks to delve into each of these main topics and form a detailed quantitative assessment of their current prominence among Syrian entrepreneurs. This report consists of both updating and detailing the opportunities toward better economic integration and growth.

¹ United Nations Special Envoy for Syria, Mr. Staffan de Mistura; <https://www.un.org/sg/en/content/sg/note-correspondents/2016-04-22/note-correspondents-transcript-press-stakeout-united>.

² Figures from UNHCR, Syria Refugee Response, <https://data2.unhcr.org/en/situations/syria>.

³ Ibid.

⁴ Ibid.

Most frequently expressed needs by Syrian Entrepreneurs include *better ways of accessing capital and financial services; easier access to information on taxes, work licenses, employment; and finally improvement of their Turkish language skills*. All other barriers were expressed with significantly less frequency. With respect to indicators of financial inclusion, less than half of the enterprises report owning a credit card or using internet banking services, while only a quarter have used credit or profit-sharing instruments. More than 95% of the enterprises state that they have never used and have no knowledge about incentives, grants or funds available to entrepreneurs in Turkey from governmental and non-governmental resources.



Results of the study indicate that wider availability of sources in Arabic on open funds, grants, incentives could be beneficial in providing more access to financial capital. This could also extend to banking and venture capital services. Around 40% of Syrian SMEs are active in international trade and involved in export. Their potential for growth could provide win-win scenarios for financial institutions and investors. Platforms that work on establishing networks between Syrian entrepreneurs and investors may be in a better position to gain from the unique opportunities to develop stronger trade relations with Arabic-speaking countries.



2. Understanding the Business Environment for Syrians in Turkey

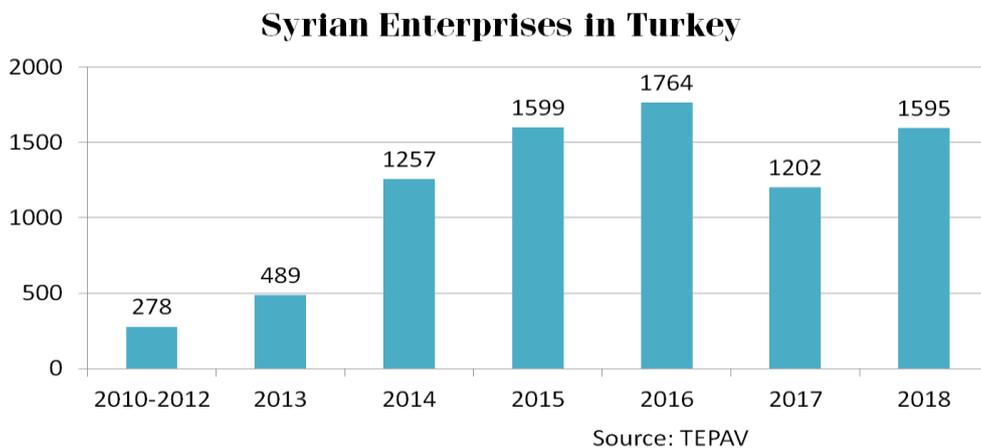
Syrians in Turkey are most likely to have either Temporary Protection or Foreigner status. Syrians who enter Turkey without a valid passport can be registered under the Temporary Protection Status. Once they are registered, those under this status can start a business in Turkey as well as open a bank account. This status still requires approval from the local immigration office if the status holder wishes to travel outside the province in which they are registered.

Syrians who enter Turkey with a valid passport have foreigner status. Foreigners can start businesses in Turkey and travel throughout the country. They are also eligible for residency if they meet certain requirements. The duration of their legal stay in Turkey is limited by the validity of their passport which is often difficult to renew. Foreigners however can apply for Temporary Protection status as well.

Availability of Temporary Protection Status was part of Turkey's initial response to the major humanitarian displacement created by the conflict in Syria. Policy focus was on humanitarian assistance right after the start of this in-flux, however over the years since 2011 priorities of displaced individuals, along with those of the host country, have shifted toward livelihoods, education and healthcare. This had the inevitable result of overburdening both the labor market and social services in Turkey. Sense of unease and discontent about the resulting pressures exerted on public services, employment opportunities and housing costs have been on the rise among the Turkish public.

Job creation is one of the main ways of strengthening both economic and social stability. Significance of SMEs for maintaining economic well-being and social cohesion in the country can be understood from their effects on employment alone. Small- and medium-sized enterprises (SMEs) in Turkey account for more than 70% of total employment in Turkey⁵. Growth of the Syrian SME base will also significantly contribute to economic and human development in Turkey with respect to not only Syrians but locals as well. Since 2011, Syrians have invested more than \$300 million into the companies they set up in Turkey. Syrian enterprises are estimated to employ around 100,000 people overall.

According to recent reports from the Economic Policy Research Foundation of Turkey (TEPAV), there are 8329 registered companies with Syrian owners or partners in Turkey while the number of Syrian enterprises that are registered and unregistered taken together is estimated to be over 10,000. Vast majority of registered enterprises are established as limited companies. Around 60% of companies registered by Syrians were set up in Istanbul. Gaziantep and Hatay also have relatively higher number of Syrian enterprises compared to other cities.



⁵ Ozbek, Zerrin- Ekonomik Sorunlar Dergisi- <http://www.mfa.gov.tr/data/Kutuphane/yayinlar/EkonomikSorunlarDergisi/sayi31/Zerrin%20Ozbek.pdf>

Estimations from the Refugees Livelihood Monitor 2017 Study by INGEV & Ipsos based on Turkstat data indicate the average monthly income for 3.6 million Syrians in Turkey is approximately \$290, which is below the poverty threshold. The study also shows that of all Syrians active in the labor market in Turkey, 17% are employed by a Syrian Employer, another 17% are self-employed and around 2% are employers themselves. A study by World Bank indicates that there is evidence of extensive displacement of Turkish workers by Syrian refugees⁶. Helping the Syrian SME base prosper and raise their employment capacity is conducive to economic and human development in Turkey and help Syrian refugees maintain their livelihoods. It is also important to reduce unemployment among Turkish workers as well. It is therefore vital to understand the ways in which their growth can be accelerated. The process of helping with their growth starts with understanding the barriers they face. Several studies such as those by INGEV (in cooperation with Sabanci University and Syrian Economic Forum)⁷ and Building Markets⁸ looked into this problem. Main barriers conveyed by Syrian entrepreneurs over these studies can be summarized as follows;

- **LACK OF INFORMATION SOURCES:** There are numerous sources of information on different issues related to doing business in Turkey, with respect to both legal and financial know-how. Yet, these are dispersed and hard to find or access. They are sometimes not up-to-date and not necessarily relevant to the specific situation of Syrians in Turkey. It is also important to note that very few of such sources are available in Arabic.
- **TRAVEL PROBLEMS:** Owing to their legal status, Syrian business-owners have to deal with certain obstacles when they travel. These difficulties may vary; some business-owners face difficulties extending their passports while others struggle to get domestic travel permits.
- **ACCESS TO BANKING SERVICES:** Turkish private banking sector offers a wide range of products to the local SMEs. Extent of these services is rather vague when it comes to serving companies established by Syrians. Financial transactions, loans, export – import financing, money transfers are some of the functions that banks are sometimes hesitant to carry out for Syrian companies in the same way they do for SMEs. There can also be different approaches from one branch of a bank to another. Banks may tend to view Syrian enterprises as high risk due to problems with traceability of funds.
- **PROBLEMS WITH COMPANY REGISTRATION AND ACCOUNT KEEPING:** Some Syrian Entrepreneurs have difficulties registering their entities. For small businesses it is difficult for owners to pay the cost of legalization and sustain it by paying taxes such as income and social security. The processes required to register the company and maintain its compliance with laws seem very tough to some entrepreneurs who are reluctant to go through these processes for fear of making a costly mistake. Regulating and registering such entities for tax collection is not only beneficial for preventing them from engaging in illegal acts but also for facilitating their organization and integration into the local Turkish economy.
- **ACCESS TO SALES AND SUPPLIER NETWORKS:** Networking is an important part of the business life. Many Syrian business-owners sell to other Syrians in Turkey in order to sustain and grow their businesses. They are having difficulties in extending their client base to the members of the host community.
- **BUREAUCRATIC DIFFICULTIES:** Syrian entrepreneurs are concerned about the time it takes to get their operating licenses and residence permits. As these are required to be renewed periodically, business owners face difficulties in travelling and operating their businesses in general throughout the application period.

⁶ World Bank- The Impact of Syrians Refugees on the Turkish Labor Market-
<https://openknowledge.worldbank.org/bitstream/handle/10986/22659/The0impact0of00Turkish0labor0market.pdf?sequence=1&isAllowed=y>

⁷ INGEV- Potential Enhancement Areas For Companies Established by Syrians
http://ingev.org/reports/Potential_Enhancement_Areas_For_Companies_Established_By_Syrians.pdf

⁸ Building Markets- Another Side to the Story
https://buildingmarkets.org/sites/default/files/pdm_reports/another_side_to_the_story_a_market_assessment_of_syrian_smes_in_turkey.pdf

- **EMPLOYEE QUOTAS:** There are legal quotas limiting the ratio between number of Syrian and Turkish employees whom can be employed at a workplace. Syrian entrepreneurs, especially the owners of start-ups and smaller enterprises, tend to prefer Syrian employers due to ease of communication stemming from sharing a language and common cultural background. Such employee quotas force Syrian entrepreneurs to adopt employment policies they aren't fully content with even though the real objective of such regulations is to prevent exploitation of Syrian workers by employing them with lower costs under unregistered labor practices.

3. Study rationale and objectives

This study was conducted to collect data on knowledge and opportunities relating to Syrian Entrepreneurship in Turkey. **Needs Assessment for Syrian SMEs** provides an up-to-date report on the current status of improvement areas and quantifies the relative importance of each item with respect to the others in the eyes of Syrian entrepreneurs.

From changing macro-economic environment to gradual adjustment of individuals to business life under new conditions, many aspects of economic activity may change over time altering the entrepreneurship landscape. As a result, obstacles that Syrian enterprises have to contend with may vary over time. A particular issue may lose importance and become less of a priority while previously unforeseen problems may emerge under changing circumstances. **Needs Assessment Study** keeps track of such changes affecting the growth and success of Syrian enterprises in Turkey.

This report will help guide the inclusion of entrepreneurship and corporate issues into the country-wide strategies developed by policy-makers along with programmes of non-governmental stakeholders. The research and writing of this report was funded and carried out by INGEV.

4. Methodology

Data Collection Method

INGEV has compiled a database of registered Syrian enterprises in Turkey. 130 companies from this database of 2500 companies were surveyed by computer-assisted telephone interviews. The survey took place between April 10th and May 10th, 2019.

Target Population

Target group for the study consisted of Syrian-owned micro-, small- or medium-sized enterprises. 40% of surveyed companies were located in Istanbul while the rest were from various cities in Turkey with the majority from Kilis, Gaziantep and Hatay.



Questionnaire Design

Questionnaire was designed to understand the current operations, future outlook and growth opportunities of the target population. Sections of the questionnaire were as follows;

Business Profile	<ul style="list-style-type: none"> • Company type • Company Name • Previous Experience in Syria Prior to Turkey • City and Year of Registration • Number of Employees • Partnership Structure • Annual Revenue • Type of Suppliers • Type of Clients • Business Field • Target Group • Export - Import Activity
Financial Inclusion	<ul style="list-style-type: none"> • Usage of Financial Instruments • Awareness of Funds, Grants and Incentives
Future Expectations	<ul style="list-style-type: none"> • Number of Expected Hires over the Next Year • Number of Expected Revenue in the Next Year
Main Areas of Improvement	<ul style="list-style-type: none"> • Rating various improvement areas with respect to their perceived importance for growth

Study Implementation

Questionnaire design was followed by enumerator training. Enumerators were trained in the following topics between April 8th and 10th;

- Project introduction and background
- Discussion of main known issues related to CATI surveys targeting enterprises
- Outline of main improvement opportunities related to Syrian businesses in Turkey
- Questionnaire flow and practice interviews among enumerators

Following this training, the questionnaire was pre-tested by making random calls to INGEV's database of Syrian enterprises. Once the questionnaire was revised and finalized, enumerators were again trained on the final version.

Fieldwork started on April 10th 2019 and ended on May 10th, 2019 with the completion of 130 interviews with company owners or representatives.

Data Analysis

Next step in the research process consisted of an explanatory analysis of quantitative data on main opportunities for Syrian business-owners as they attempt to grow their businesses in Turkey. Two-sided significance testing at 95% confidence level was carried out in order to compare relative importance of each statement conveying a business obstacle. Similar confidence testing was also carried out on data on knowledge and usage of various financial instruments.

Study Limitations

This study does not deal in-depth with the impacts of each business obstacle expressed by the target group. Rather it aims to provide a relative ranking of factors that have the highest potential to positively affect Syrian enterprises.

It is important to note that while this research collected data from Syrian SMEs on numbers of current employees and their hiring projections for the next calendar year, it did not monitor the impact of Syrian SMEs on job creation in Turkey or on Turkish Economy overall. It's possible to

supplement this research with further quantitative or qualitative studies focusing on the root causes of each business barrier, how they interplay with others and feedback on hypotheses related to overcoming such barriers.

It's also important to note that due to trust issues, some corporate representatives declined to answer certain inquiries in the interviews, especially those related to estimating the size of the company, such as annual revenue and number of employees.



5. Findings and Results

Section 1 | Business Profile

Shareholder data signifies that there might be room for improvement when it comes to forming stronger business links between Syrians and members of host community. Almost half of Syrian Enterprises has a single Syrian owner while most of the other half has multiple Syrian Partners. Only around 3% of total have Turkish partners.

Shareholder Structure of the Company	
One Syrian Owner	46%
Multiple Syrian Partners	45%
Partners with nationalities other than Syrian or Turkish.	4%
At least one Turkish Partner	3%
No Answer	2%

Base: 130 Note: Multiple Answers allowed.

Majority of Syrian Enterprises sell to consumers directly while a smaller but still considerable number of Syrian Enterprises sell to other businesses. A relatively minor number sell both to consumers and businesses.

Target Group	
Consumers	56.8%
Businesses	37.6%
Both	5.6%

Base: 130

Syrian Enterprises have spread over many sectors of the Turkish Economy. Fields of activity are rather dispersed with food products and electronics have relatively high concentrations.

Fields of Activity	
FOOD PRODUCTS	27%
ELECTRIC, ELECTRONICS & COMPUTERS	14%
TRADE & RETAIL	9%
AUTOMOBILES & AUTOMOTIVE INDUSTRY, SPARE PARTS	9%
METALWARE AND MACHINERY	8%
CONSTRUCTION, MANUFACTURING AND TRADE OF CONSTRUCTION MATERIALS	8%
CHEMICALS, PLASTIC, PORCELAIN PRODUCTS	5%
TEXTILES, SHOES AND LEATHER PRODUCTS	5%
PERSONAL CARE SERVICES AND PRODUCTS	3%
ENTERTAINMENT AND ACCOMODATION	3%
OTHER	10%

Base: 130

A significant portion of Syrian business-owners in Turkey were already business-owners in Syria before they arrived in Turkey, pointing to business know-how transfer from Syria to Turkey due to the conflict in Syria.

Prior Ownership	
No Business Ownership in Syria	40%
Owned Business in Syria	37%
No Answer	23%

Base: 130

Slightly more than half of all Syrian enterprises have no export or import activity. However the portion of those that do is also significant and indicates the potential of Syrian Enterprises to strengthen Turkish economy's international links.

Participation in International Trade	
No International Trade	57.6%
Does International Trade	42.4 %
Both Export - Import	23.2%
Only Export	14.4%
Only Import	4.8%

Base: 130

Syrian Enterprises in Turkey chiefly buy from Syrian suppliers in Turkey. While a significant portion buys from Turkish suppliers as well, this is still an indication that business links between Turkish businesses and Syrian SMEs could have room for further development.

Supplier Profile	
Syrian Suppliers in Turkey	62%
Local suppliers in Turkey	20%
Non-Syrian International Suppliers	18%
Syrian Suppliers outside of Turkey	1%
No Answer	21%

Base: 130

Note: Multiple Answers Allowed.

Only 27% of Syrian Enterprises state that they sell their products or services to Turkish consumers, providing yet another indication that there is significant growth potential by strengthening the trade links between two communities.

Buyer Profile	
Syrian Consumers in Turkey	52%
Turkish Consumers in Turkey	27%
Arabic-Speaking Countries	15%
Syrian Consumers outside Turkey	13%
International Consumers (outside Arabic-speaking Countries)	8%
No Answer	16%

Base: 130

Note: Multiple Answers Allowed

Section 2 | Financial Inclusion

Usage of financial instruments requires a degree of familiarity with finance and banking products. Previous studies show that Syrians in Turkey generally are concerned about what they regard to be vague and opaque banking practices in Turkey. While this is partially attributable to language barriers, it also stems from cultural differences regarding banking and finance as well as occasionally unpredictable policies of banks towards refugees.

Less than half of Syrian SMEs use credit cards and internet banking, while only a quarter of them have taken out credit before.

Financial Instruments	
Owns Corporate Credit Card	45%
Uses Internet Banking	42%
Credit or Profit Sharing (including Participation Banking)	25%

Base: 130

Very few Syrian SMEs are aware of grant, fund or incentive opportunities available to them.

Fund, Grant, Incentive Awareness	
Aware of Incentives (by Government)	3.1%
Aware of Grants (by NGOs or Intl. Institutions)	2.3%
Aware of Funding Opportunities (Private)	2.3%

Base: 130

Section 3 | Future Expectations

Most Syrian SMEs cannot express a clear expectation on whether they will be hiring new staff in the coming year. Among those who do voice a clear expectation, there is no significant difference between those who plan to make new hires and those who don't.

New Hires in the Next Year	
Don't Know / Can't Tell	67%
Yes	19%
No	14%

Base: 130

Similar to staff expectations, most Syrian SMEs don't have clear expectations on revenue growth. However number of those who do expect higher revenue are significantly higher than those who expect similar or less revenue within next fiscal year.

Revenue Increase for the Next Year	
Don't Know / Can't Tell	58%
Expects Higher Revenue	39%
Doesn't Expect Higher Revenue	4%

Base: 130

Section 4 | Main Growth Opportunities

1. ACCESS TO CAPITAL: In line with the relative shift in focus from humanitarian assistance to livelihoods generation that took place among the Syrian Population in Turkey over the years since the Syrian conflict started the most frequently expressed need by Syrian SMEs has to do with accessing capital for growing their business.

Responses on access to incentives, funds and grants coupled with those on financial services and accessing capital signify that obtaining funds for growth and investment has become the top priority for Syrian SMEs.

2. BETTER UNDERSTANDING OF TURKISH LANGUAGE, LAWS AND REGULATIONS: Second top priority can be generally classified as the need for better integration to Turkey. The desire to understand the rules and regulations of the country they are now operating in still remains strong and relatively unfulfilled among the Syrian SMEs in the country. High frequency of responses related to information on rules and regulations, bureaucratic processes along with those on Turkish Language Skills support this observation.

3. BETTER CLIENT REACH: Third top priority can be classified as better client reach. Responses about the need to find better ways of reaching clients as well as easier rules for travel and sales skills improvements indicate that overall Syrian SMEs target extending their reach within the both Turkish and international markets.

Improvement Areas For Growth	Top 2 Box *
Developing Better Ways Of Accessing Capital	58%
Easier Access To Information On Rules And Regulations On Taxes, Licenses And Employment	55%
Improving Turkish Language Skills	52%
Relaxation Of Rules On Work Permits And Employment Of Syrians	50%
Developing Better Ways Of Accessing Banking And Financial Services	48%
Developing Better Ways Of Reaching New Customers Or Clients	45%
Easier Access To Information On Incentives	45%
Easier Access To Information On Funds And Grants	45%
Easing of Bureaucratic Processes	43%
Improvement of Payment Terms in Turkish Markets	38%
Lessening Of Economic Volatility (Inflation, Minimum Wage Changes, Exchange Rates Etc)	38%
Easing of Rules On Travel	35%
Finding Easier Ways of Reaching Suitable Suppliers	32%
Sales Skills Improvement	19%
Finding Easier Ways of Reaching Suitable Candidates For Job Vacancies	18%
Easing Of Rules On Opening Personal Bank Accounts	18%
Finding Easier Ways Of Selling Over The Internet	14%
Improvement Of Personnel Capabilities	10%

Base: 130

*T2B: The interview question asked each respondent to rate, on a scale from 1 to 10, how much they need each listed improvement for growing their business.

Percentages shown in the table indicate the percentage of respondents who rated each listed barrier with a score of either 9 or 10.

6. Conclusions

Needs Assessment for Syrian SMEs provides an assessment of the hardships and opportunities faced by Syrian SMEs operating in Turkey. This report highlights the challenges associated with doing business Turkey and aims to inform policies and projects for better utilizing the impact of Syrian SMEs on the Turkish economy and society. Improved economic integration of Syrians into Turkish economy undoubtedly has the potential to mitigate the effects of the refugee crisis as well.

Better Client Reach

Main results of the research indicate that there is growing need for establishing deeper and stronger business links between Syrian SMEs and rest of the Turkish Market. This applies in several respects; first of all better sales relations can be developed between Syrian SMEs and both Turkish suppliers and client. Network development and mentorship projects raise the possibility of achieving this objective.

Better Financial Opportunities

Secondly, it is also important to establish clearer links between Syrian SMEs and institutions that provide financial opportunities. Such institutions include but are not limited to banks operating in Turkey. Government incentives along with Non-Governmental and Civil Society Organizations also present funding opportunities. Bringing Syrian entrepreneurs to the attention of Turkish and international investors and venture capital funds may also provide an avenue to better capital access. Syrian SMEs, as shown by the results of the study, display significant potential for exporting, especially to Arabic-speaking countries.

Better Access to Information

Thirdly, lack of easy-to-understand information resources on rules and regulations of the Turkish Market in Arabic continues to be a barrier to better economic integration. Call center or web development projects to this end may provide significant benefits. Language barriers are still among the most frequently expressed problems as well. Social programs targeting language-teaching could provide important value for Syrian businesspeople.

We hope this report will help bring about genuine long-term solutions to problems faced by Syrian entrepreneurs in Turkey and ultimately serve to provide value for the Turkish Economy.